

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 EPG-02 SP-02 STR-04 TRSE-00
LAB-04 SIL-01 OMB-01 L-03 H-01 PA-01 PRS-01
USIA-06 SS-15 NSC-05 /082 W
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R 021638Z JUN 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0033
INFO ALL EC CAPITALS
AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY NICOSIA

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 05599

USEEC

E.O. 11652: GDS
TAGS: EEC, CY
SUBJECT: EC-CYPRUS NEGOTIATIONS

REF: (A) EC BRUSSELS 4565, (B) EC BRUSSELS 4520,
(C) NICOSIA 1438

1. SUMMARY. EC-CYPRUS NEGOTIATIONS ON INTERIM TRADE
ARRANGEMENTS TO TAKE EFFECT JULY 1, AND ON A FINANCIAL
PROTOCOL TO THE BASIC EC-CYPRUS ASSOCIATION AGREEMENT PRO-
VIDING FOR EC DEVELOPMENT AID, APPEAR TO BE PROCEEDING
SATISFACTORILY, ALTHOUGH FURTHER NEGOTIATING SESSIONS WILL
BE REQUIRED. MOREOVER, TURKISH CYPRIOT DEMANDS REGARDING
THE FINANCIAL PROTOCOL COULD DELAY ITS CONCLUSION. THE EC
COMMISSION IS MAINTAINING INFORMAL CONTACT WITH THE TURKISH
CYPRIOTS, IN PARALLEL WITH ITS FORMAL NEGOTIATIONS WITH THE
CYPRIOT GOVERNMENT (GOC), TO TRY TO ENSURE THAT THE TURKISH
COMMUNITY ALSO BENEFITS FROM THE NEW TRADING AND FINANCIAL
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ASSISTANCE ARRANGEMENTS. END SUMMARY.

2. SOURCES IN THE COMMISSION'S DGI (EXTERNAL RELATIONS),
COREPER, AND THE CYPRIOT MISSION TO THE EC, HAVE TOLD USEC
OFFICER THAT IN THE FIRST TWO EC-CYPRUS NEGOTIATING
SESSIONS (ONE IN MID-MAY, THE OTHER MAY 27), DISCUSSIONS
CLOSELY FOLLOWED THE LINES OF THE COMMISSION'S NEGOTIATING

MANDATE DESCRIBED IN DETAIL IN REF A. CYPRIOT MISSION ACKNOWLEDGES THAT SINCE THE CYPRIOTS ARE ALMOST EXCLUSIVELY THE DEMANDEURS IN THESE NEGOTIATIONS, THE INITIATIVE LIES WITH THE EC. CYPRIOTS HOPE THEY CAN PERSUADE THE EC TO IMPROVE ITS TRADE OFFER SOMEWHAT, AND APPEAR TO BE FOCUSING THEIR REQUEST FOR ADDITIONAL CONCESSIONS ON TWO AREAS: (A) AGRICULTURAL TRADE - THE CYPRIOTS WOULD LIKE TO SEE PRESENT TRADING ARRANGEMENTS ALSO EXTENDED THROUGH 1977 ON THOSE FEW ITEMS NOT COVERED IN THE EC OFFER (E.G., WINES OTHER THAN SHERRY AND POTATOES); AND (B) INDUSTRIAL TRADE - THE CYPRIOTS WANT RULES OF ORIGIN AT LEAST AS FAVORABLE AS THOSE APPEARING IN AGREEMENTS THE EC HAS RECENTLY NEGOTIATED WITH OTHER MEDITERRANEAN COUNTRIES.

3. COMMISSION AND COREPER OFFICIALS EXPECT ANOTHER NEGOTIATING SESSION WITHIN A FEW DAYS. THEY ANTICIPATE NO MAJOR HITCHES IN REACHING AGREEMENT SOON ON THE INTERIM TRADE ARRANGEMENTS TO TAKE EFFECT JULY 1. THESE OFFICIALS ALSO SUGGEST THAT THE ENVISAGED FINANCIAL PROTOCOL, WHICH WILL PROVIDE 30 MILLION UNITS OF ACCOUNT IN EC DEVELOPMENTAL ASSISTANCE FOR CYPRUS, PRESENTS NO GREAT PROBLEMS FOR EC/GOC NEGOTIATORS, ALTHOUGH CONCLUSION OF THE PROTOCOL IS SOMEWHAT COMPLICATED BY TURKISH CYPRIOT ATTITUDES.

4. IN ADOPTING A NEGOTIATING MANDATE ON MAY 3 AND INSTRUCTING THE COMMISSION TO OPEN TRADE/ECONOMIC NEGOTIATIONS WITH THE GOC (REF B), THE EC COUNCIL NOTED PUBLICLY
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THAT THE ARRANGEMENTS TO BE CONCLUDED SHOULD BENEFIT BOTH CYPRIOT COMMUNITIES. THE SAME DAY THE COUNCIL PRIVATELY AUTHORIZED THE COMMISSION TO MAINTAIN INFORMAL CONTACTS WITH THE TURKISH CYPRIOTS TO ENSURE THAT THE NEGOTIATIONS WITH THE GOC MET THAT AIM. COMMISSION AND COREPER OFFICIALS INFORMED US LAST WEEK THAT THE EC IS HOLDING SEPARATE PARALLEL DISCUSSIONS WITH THE TURKISH CYPRIOTS (COMMISSION DESCRIBED TURKISH CYPRIOT REPS AS "WORKING LEVEL" AND SAID THEY ARE NOT REGULARLY LOCATED IN BRUSSELS). ALTHOUGH THE EXISTENCE OF THESE INFORMAL DISCUSSIONS HAS NOW APPARENTLY MADE THE TURKISH CYPRIOT PRESS (REF C), COMMISSION AND COREPER STILL CONSIDER THE FACT THEY ARE BEING HELD TO BE "CONFIDENTIAL".

5. AS REGARDS THE FINANCIAL PROTOCOL, TURKISH CYPRIOTS HAVE BEEN ARGUING THAT IT SHOULD SPECIFY THAT EC ASSISTANCE IS TO BE SPLIT EQUALLY BETWEEN THE TWO CYPRIOT COMMUNITIES OR, IF THAT IS NOT POSSIBLE, THAT IT SHOULD STATE THAT THE TURKISH CYPRIOTS MUST RECEIVE THEIR "FAIR

SHARE." EC OFFICIALS HAVE COUNTERED THAT THIS IS NOT POSSIBLE, SINCE SUCH LANGUAGE WOULD BE UNACCEPTABLE TO THE GOC. INSTEAD, THE EC HAS PROMISED THAT DURING THE PERIOD OF EC MEMBER STATE RATIFICATION OF THE PROTOCOL (A MINIMUM OF 12 MONTHS, AND PROBABLY LONGER) AND DURING THE SUBSEQUENT DISBURSEMENT OF FUNDS, THE EC WILL USE THE LEVERAGE IT HAS AS HOLDER OF THE FUNDS TO SEE THAT THE GOC AGREES TO THE FINANCING OF A SUBSTANTIAL NUMBER OF PROJECTS IN THE TURKISH SECTOR. COMMISSION AND COREPER SOURCES SAID THAT IN THE END THEY EXPECT TO NEGOTIATE THE STANDARD FINANCIAL PROTOCOL WHICH THE EC CONCLUDES WITH AID RECIPIENT COUNTRIES (I.E., WITHOUT LIMITING LANGUAGE DESIRED BY TURKS),

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BUT THEY ACKNOWLEDGED THAT THE TURKISH CYPRIOTS MAY DELAY COMPLETION OF THE PROTOCOL.

6. THE TURKISH CYPRIOTS ALSO HAVE A STRONG INTEREST IN THE TRADING ARRANGEMENTS WITH THE EC WHICH ARE TO BE EFFECTIVE FROM JULY 1. ALTHOUGH SPEAKING WITHOUT REFERENCE TO SPECIFIC TRADE FIGURES, A U.K. PERM DEL OFFICIAL TOLD US THAT IN DOLLAR TERMS THE TURKISH COMMUNITY HAS ABOUT AS MUCH AT STAKE AS THE GREEK CYPRIOTS. THE LATTER COMMUNITY IS THE MAJOR BENEFICIARY OF THE EC'S WILLINGNESS TO PERMIT SHERRY TO CONTINUE TO ENTER THE U.K. ON THE PRESENT BASIS,

WHILE THE TURKISH COMMUNITY BENEFITS FROM CONTINUING CURRENT ARRANGEMENTS ON CITRUS. ACCORDING TO THE U.K. PERM DEL SOURCE, THE MAJOR ISSUE ON THE TRADE SIDE BEING DISCUSSED BY THE EC AND THE TURKISH CYPRIOTS IS HOW TO ENSURE THAT EC MEMBER STATES ACCORD PRODUCTS ORIGINATING IN THE TURKISH SECTOR OF CYPRUS THE SAME MARKET RIGHTS AS THOSE ORIGINATING IN THE GREEK SECTOR.

7. COMMENT: THE COMMISSION AND COUNCIL HAVE TO TREAD
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WARILY IN THESE NEGOTIATIONS. FIRST, MANY MEMBER STATE GOVERNMENTS ARE DETERMINED TO TRY TO MAINTAIN BALANCED RELATIONS WITH GREECE AND TURKEY--AND, THEREFORE, BY DERIVATION WITH THE GREEK AND TURKISH COMMUNITIES IN CYPRUS--AND, SECONDLY, THERE ARE PRO-GREEK AND PRO-TURKISH ELEMENTS IN THE EUROPEAN PARLIAMENT WHO REGULARLY QUESTION COMMISSION AND COUNCIL ON WHETHER THE INTERESTS OF ONE CYPRIOT COMMUNITY OR THE OTHER IS BEING SAFEGUARDED IN THE NEGOTIATIONS. END COMMENT. HINTON

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